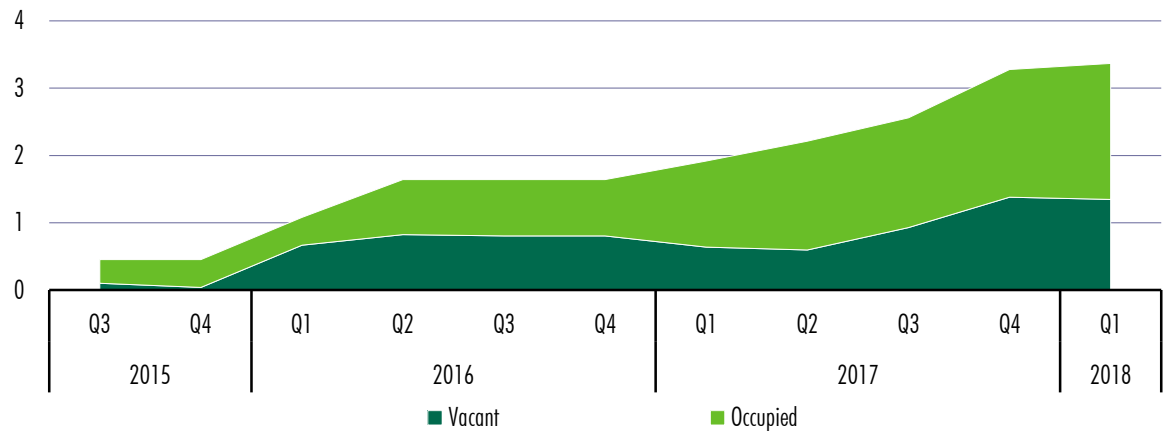


Charleston Industrial & Logistics, Q1 2018

# Speculative development to continue in response to diversifying demand

▼ Vacancy Rate 5.2%
▼ Availability Rate 8.2%
▲ Net Absorption 1,214,377 SF
▲ Avg. Asking Rent \$5.50 PSF NNN
▼ Construction 5,018,048 SF

Figure 1. Speculative Development



Source: CBRE Research, Q1 2018

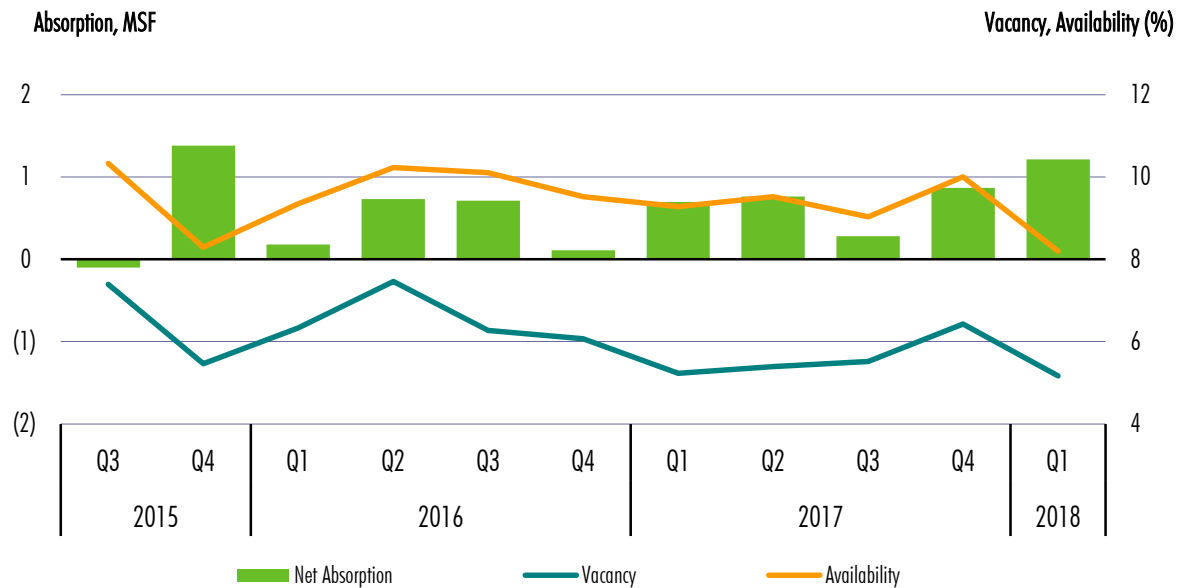
An expanding manufacturing base and growing logistics sector are combining to usher in a period of unprecedented industrial growth in Charleston. Vacancy dropped by more than 125 basis points to 5.2%, the lowest recorded to date, indicating that opportunities for tenants to find space are quickly dwindling. Fortunately for industrial users, the steady trends in the marketplace have attracted a number of new-to-market institutional developers prepared to deliver a significant amount of space to the Charleston market.

Over the last four quarters, the industrial marketplace has absorbed over 3.1 million sq. ft. of space, representing an annual growth rate of 5.9%. Of the 5 million sq. ft. of space currently under construction, only 25% is designated as

speculative development, i.e., when construction begins prior to the developer having secured a tenant. Because the majority of space under construction is not speculative, absorption should remain elevated throughout 2018. In just the last three years, more than 3 million sq. ft. of speculative development has been completed, almost 60% of which has already been absorbed.

During the first quarter, absorption exceeded 1.2 million sq. ft., its highest point in the last ten quarters. The continued diversification of the industrial market is helping to drive this elevated growth as three of the largest absorption events involved logistics and manufacturing. Coffee logistics provider RPM

Figure 3. Vacancy, Availability and Absorption



Source: CBRE Research, Q1 2018

and manufacturing distributor Origin Point Brands combined to lease more than 750,000 sq. ft. of industrial warehouse space. In addition, automotive manufacturing supplier IFA unveiled the completion of their new 240,000 sq. ft. facility located a part of the I-26 North submarket.

Traditionally, industrial growth is largely associated with regional manufacturing. However, the Charleston market is in close proximity to the Port of Charleston, one of the fastest growing and most efficient ports in the country, and it is difficult to understate this resource’s significance on the region’s industrial marketplace.

The Port is undertaking a massive capital improvement project intended to attract more container traffic from a recently widened Panama Canal. The end-goals are to both deepen the port to 52 feet and to open the new Hugh Leatherman terminal. The terminal is slated for a 2020 completion.

Further contributing to Charleston’s industrial success is the region having cultivated a reputation as a “new” market in the eyes of many

developers, and as quarterly results have shown, one with consistent rent growth. In the last two years alone, asking rates have increased approximately 19%. The Charleston region is characterized by a rapidly growing port market coupled with a diversifying base– a strong attraction for investors and developers, alike.

In light of the region’s increased popularity, the Charleston industrial market has begun to attract a wider investor audience. It is worth recognizing the effect of recent manufacturing growth as a catalyst for investor and developer interests. Mercedes recently completed a 725,000 sq. ft. expansion of their facility and Volvo’s new 1.6 million sq. ft. facility is slated for completion later this year.

In addition to the introduction and expansion of automobile production, several other manufacturers have expanded into the Charleston market as well. Most recently, a new build-to-suit project was started for defense contractor SAIC as they begin a 340,000 sq. ft. expansion. The company is one of the ten largest manufacturing employers in the market.

Figure 2. Market Statistics

Market	Market Rentable Area (SF)	Vacancy Rate (%)	Total Availability (%)	Avg Asking Dr Rate (\$ PSF/YR)	Under Construction (SF)	Net Absorption Last 4 Qtrs (SF)	Net Absorption Current Qtr (SF)
Charleston	2,174,654	5.0	11.0	8.18	-	(30,545)	(6,000)
East Cooper	8,470,514	4.6	4.6	5.73	-	157,961	(12,237)
Hanahan	5,710,219	0.5	3.4	10.18	340,000	208,461	-
Hwy 52 North	4,681,735	5.8	11.2	1.64	-	40,750	40,750
I-26 North	9,761,261	3.4	3.7	5.24	3,503,150	514,908	1,002,778
North Charleston/Ladson	23,769,218	7.3	11.7	5.43	1,174,898	2,321,647	133,494
West Ashley	1,267,604	1.9	7.4	11.25	-	(75,408)	55,592
<b>MARKET TOTAL</b>	<b>55,835,205</b>	<b>5.2</b>	<b>8.2</b>	<b>5.50</b>	<b>5,018,048</b>	<b>3,120,103</b>	<b>1,214,377</b>
Manufacturing	22,193,011	4.5	7.7	4.68	1,890,000	1,221,601	(127,156)
R&D/Flex	2,413,262	6.6	10.7	9.70	-	13,968	35,342
Warehouse/Distribution	31,048,932	5.6	8.4	5.57	3,128,048	1,884,534	1,306,191
<b>MARKET TOTAL</b>	<b>55,835,205</b>	<b>5.2</b>	<b>8.2</b>	<b>5.50</b>	<b>5,018,048</b>	<b>3,120,103</b>	<b>1,214,377</b>

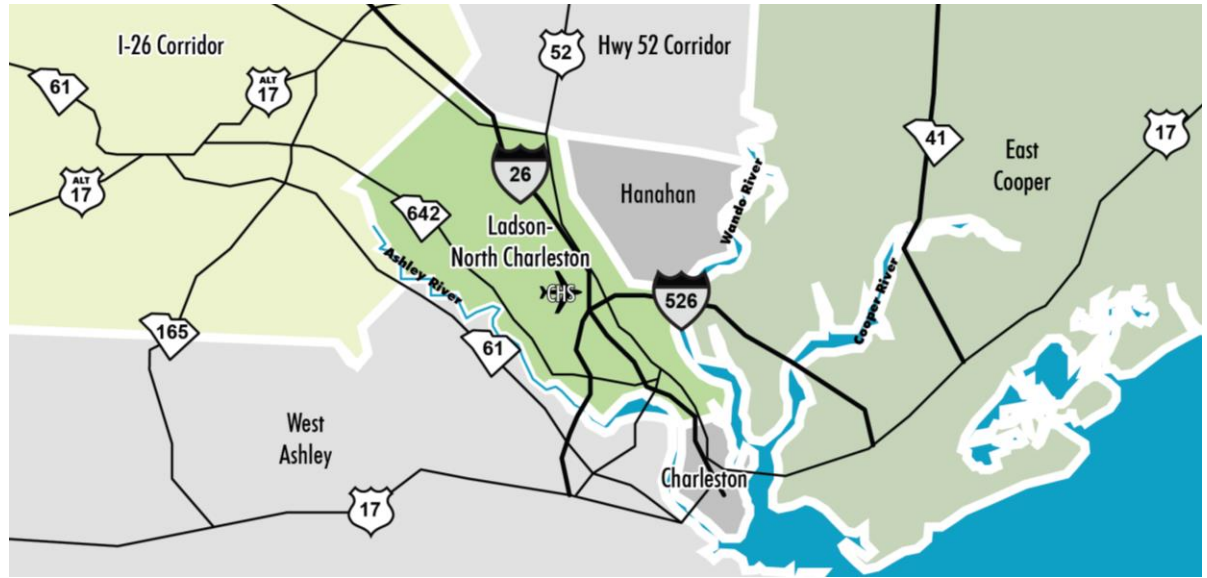
Source: CBRE Research, Q1 2018

Given North Charleston’s proximity to the Port of Charleston, it is not surprising this submarket remains instrumental to the continued growth and success of the industrial marketplace. Moreover, the area’s significance is unlikely to change anytime soon as the speculative market shows no signs of slowing down, instead exhibiting increased levels of activity as existing product is successfully leased. On its own, the North Charleston-Ladson submarket has experienced roughly 2.3 million sq. ft. of absorption in the last four quarters, accounting for roughly 75% of total marketplace growth.

Developers are active in the market with multiple projects in various stages of the development pipeline. At present, there is more than 1.1 million sq. ft. of speculative space under construction with

several million more sq. ft. of industrial product slated for delivery in the next two years.

Significant projects currently underway include a 173,000 sq. ft. speculative project by Pattillo Industrial and a 563,000 sq. ft. project by The Silverman Group. The latter is to be the first of a series of industrial warehouse buildings to be located in Summerville on a 400-acre industrial campus and roughly 25 miles from the Port of Charleston. According to a recent press release, the finished product is scheduled for delivery by the end of 2018. The site also contains early plans for the inclusion of a potential 520,000 sq. ft. built-to-suit facility.

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